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TAGS: ETRD, CS, HO, NV

SUBJECT: BANANAS EXPORT TAX

1. THE U.S. UNDERSTANDS THE DESIRES OF THE BANANA PRODUCING COUNTRIES TO INCREASE THEIR RETURNS FROM BANANA EXPORTS. HOWEVER, THE COLLUSIVE ACTION EVIDENTLY DECIDED UPON BY THE LATIN AMERICAN GROUP TO UNILATERALLY RAISE PRICES THROUGH A HEAVY EXPORT TAX IS, IN USG VIEW, ILL-ADVISED FROM BOTH AN ECONOMIC AND POLITICAL VIEWPOINT. WE RECOGNIZE THE ADVANTAGES TO US OF ALLOWING OPPORTUNITY FOR COMPANIES TO PERSUADE PRODUCERS THAT EXPORT TAX NOT IN PRODUCERS' OWN INTEREST. NEVERTHELESS, POSTS SHOULD BE AWARE OF FOLLOWING AND DRAW ON IT ORALLY IN THEIR DISCUSSIONS WITH HOST GOVERNMENT OFFICIALS.

2. IN THE LIGHT OF THE RECENT ACTIONS OF OIL PRODUCING COUNTRIES THROUGH UNILATERAL JOINT ACTION TO DRASTICALLY RAISE PETROLEUM PRICES AND CURTAIL SUPPLIES, DISRUPTING SERIOUSLY THE WORLD'S ECONOMY AND TRADE, WIDESPREAD AND HIGH-LEVEL CONCERN IN THE U.S. AND ELSEWHERE AROUND THE WORLD HAS BEEN SHARPLY FOCUSED ON THE POTENTIAL DANGERS OF ATTEMPTS AT SIMILAR ACTIONS BY COUNTRIES EXPORTING OTHER COMMODITIES.

3. PRODUCING COUNTRIES' TAX ACTION WOULD PREJUDICE THEIR COMPETITIVE POSITION AND RUN COUNTER TO THEIR AND OUR EFFORTS TO PROMOTE BETTER MARKET ACCESS AND TO OBTAIN GSP AND OTHER ADVANTAGES TO BANANA PRODUCERS CONTAINED IN TRADE BILL CURRENTLY UNDER CONSIDERATION IN U.S. CONGRESS. GIVEN THE MAGNITUDE OF U.S. IMPORTS OF BANANAS (SOME \$200 MILLION ANNUALLY) THE IMPACT OF THE UNILATERAL, COLLUSIVE TAX ACTION ASSUMES SUBSTANTIAL IMPORTANCE U.S. TRADE PICTURE. FYI QUESTIONS HAVE ALREADY BEEN RAISED BY MEMBERS OF CONGRESS CONSIDERING SUGAR LEGISLATION END FYI.

4. WHILE WE HAVE NOT DONE FULL ANALYSIS THIS POINT, WE STRONGLY SUSPECT PRICE INCREASE CONTRARY TO INTERESTS OF PRODUCERS SINCE THEY WILL INVITE COMPETITION HIGHER COST PRODUCERS. THUS TAX LIKELY PROVE SELF-DEFEATING.

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5. ONE OF THE INITIATIVES PROPOSED AT TLATELOLCO WAS TO INCREASE CONSULTATION ON MATTERS WHICH AFFECT TRADE BETWEEN HEMISPHERIC NATIONS, SUCH AS THIS. WE WOULD HOPE THAT GREATER USE WOULD BE MADE OF CONSULTATION.

6. THE BANANA PRODUCING COUNTRIES ALONG WITH OTHER LDCS HAVE LONG ARGUED FOR HIGHER PRICES FOR THEIR PRIMARY COMMODITY EXPORTS TO HELP COVER CONSTANTLY RISING COSTS

THEIR IMPORTS OF FINISHED AND CAPITAL GOODS. SOME OF THEM MAY NOW ADD ARGUMENT RE NEED COVER SHARPLY INCREASED OIL IMPORTS. THIS LATTER ARGUMENT OF QUESTIONABLE VALIDITY, GIVEN SHARP RECENT RISE THEIR EXPORT EARNINGS FROM OTHER PRIMARY COMMODITIES, SUCH AS COFFEE, COTTON AND SUGAR. IN ANY CASE WE CANNOT ACCEPT AN EFFORT PASS ON TO U.S. THROUGH BANANA TAX THE INCREASED COST THEIR OIL.

7. THE U.S. GOVERNMENT FOR ITS PART, HAS MAINTAINED A POLICY OF OPEN ACCESS TO THE U.S. MARKET FOR BANANAS. THE U.S. HAS MOREOVER, BEEN WORKING TO ELIMINATE DISCRIMINATION AGAINST LATIN AMERICA IN EUROPE AND GENERALLY TO IMPROVE THE ACCESS FOR BANANAS AND OTHER TROPICAL PRODUCTS FROM LATIN AMERICA INTO THE MARKETS OF ALL MAJOR INDUSTRIALIZED COUNTRIES THROUGH ITS SUPPORT OF A SPECIAL AND PRIORITY SECTOR FOR NEGOTIATIONS ON TROPICAL PRODUCTS IN THE MULTILATERAL TRADE

NEGOTIATIONS PRESENTLY UNDERWAY IN GENEVA. WE INTEND TO CONTINUE TO PURSUE THIS MATTER VIGOROUSLY.

8. DEPARTMENT UNCLEAR SPECIFIC RATIONALE DECLARED BY COUNTRIES CONCERNED FOR THEIR TAX ACTION AND REQUEST POSTS REPORT PROMPTLY ANY INFORMATION REASONS OFFICIALLY STATED FOR ACTION, INCLUDING ANY LINKAGE WITH OIL PRICES.
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